

22 February 2017

Danske Daily

Market movers today

- In the **US**, the FOMC minutes from the February meeting are due out. The statement did not contain much interesting news but the minutes may enlighten us on the different stances within the FOMC. We do not expect much news from the minutes either as the Fed is waiting for more news on Trumponomics. In addition, Fed Governor Jerome Powell (voter, neutral) is due to speak tonight on the economic outlook and monetary policy.
- German Ifo expectations fell from 105.5 in December to 103.2 in January and we expect it to decrease further in February to 102.5. Despite the high level in the survey in Q4 16, pointing towards very strong German GDP growth, actual economic activity was 'just' 0.4% q/q in the first release. Overall, optimism about growth prospects for the start of 2017 could be on the decline.

In the **UK**, the second estimate for GDP growth in Q4 is due out, which is somewhat interesting, as the expenditure components such as private consumption and investments in Q4 are included for the first time in this release. While growth continued at the same pace in H2 16 after the EU vote, we think GDP growth will slow down eventually this year.

- In **Scandinavia**, Norwegian LFS-unemployment data for December (November-January) will be published this morning, while the Swedish Debt Office will release its updated borrowing forecast. For more info see 'Scandi Markets' on page 2.

Selected market news

US equity markets closed at a new record high last night as US investors returned to the market after Monday's holiday. In Asia, risk appetite appears more moderate this morning with mixed trading in the regional equity indices.

The oil price moved higher yesterday and the price on Brent crude topped the USD57/bbl level for the first since the beginning of the month. Constructive risk sentiment during the European session and bullish comments from OPEC Secretary General Mohammad Barkindo contributed to the move higher. The higher oil price was a supporting factor the currencies of oil producing countries like the rouble and the Norwegian krone and EUR/NOK broke below the important technical level of 8.83-8.84 from the beginning of February, which may open up for further downside.

In the **UK**, lawmakers in the House of Lords agreed without a vote last night, after two days debate, to let the government's Brexit move on to the 'committee stage' starting on 27 February. Here, lawmakers will consider amendments and we are likely to see attempts to rewrite the bill. The government does not have a majority in the Upper House and could potentially lose votes on amendments. If wording in the bill is changed by the Upper House, it will be sent back to the Lower House (House of Commons) for another debate and voting.

Data for Chinese property prices, released overnight, showed that house prices increased in January in the fewest cities in a year. New home prices, excluding government-subsidised housing, gained last month in 45 of the 70 cities tracked by the National Bureau of Statistics. Moreover, in the cities where house prices still go up, it seems that price inflation is moderating, indicating that recent tightening measures have worked to dampen house price inflation.

Selected readings from Danske Bank

- [Research China: Don't rule out a US-China trade war just yet](#)

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Scandi markets

Norway. LFS-unemployment data for December (November-January) is due to be published this morning. LFS unemployment has come down in recent months but this is due mainly to a reduced supply of labour, as its employment measure has actually fallen. Last week, however, brought more credible employment data from the national accounts, which showed very clearly that there has been job creation. We do not therefore set much store by the LFS figures for either employment or unemployment, but would expect them to show an unchanged jobless rate of 4.7%.

Sweden. The Swedish Debt Office is due to release its updated borrowing forecast. We see a high likelihood of another deduction in the borrowing plans for 2017-18 as monthly tax revenues are higher and this year's EU payments are lower than estimated. We believe that T-bills will continue to take most of the hit but the question is how much they can/want to lower the already low volumes. See more in [Reading the Markets Sweden](#), 16 February 2017.

Fixed income markets

The short end of Germany continues to 'improve' its all-time records on a daily basis. The yield of the 2Y is now at -88bp while Schatz ASW is a whopping 70bp wide – both lower/wider than the levels observed at year-end. One factor adding to this could be the great uncertainty regarding future turns. Even though shorting Schatz entails an attractive carry (repo trading around -60bp) the risk of where you can roll over Q1 could dampen the appetite to do so. Another factor is that the ECB has been very active in German papers yielding not just marginally but significantly below the deposit rate.

The new 15Y Spanish benchmark bond (SPGB Jul 33) announced yesterday is expected to be launched today. Spain has been trading fairly well in 2017 compared to Italy, although spreads have narrowed somewhat from the wide levels at the end of January. The German Finanzagentur will also be in the market with the scheduled EUR1bn tap in the 30Y.

The Danish DMO will again be tapping the 2Y and the 10Y introduced last month. We expect a total DKK2.5-3.0bn worth of bonds at the two auctions. We recommend buying the DGB '27 against DGB '25 given the extra pickup of approximately 29bp. The DGB '27 is also a slightly cheaper asset swapped than both DGB '25 and especially DGB '23. See more in [Fixed Income Strategy - DKK: 2Y and 10Y DGB auctions](#), 21 February 2017.

We also have supply in Sweden with a SEK2.5bn tap in the May25 and a SEK0.5bn tap in the Jun32. In addition, Kommuninvest will introduce a new 0.75% Feb 23 bond (SE0009662943), thereby becoming the longest Kommuninvest benchmark bond. See [Strategy Sweden: Introduction of K2302](#), 21 February 2017.

FX markets

In the majors, EUR crosses were trading with a heavy tone yesterday, where the key driver was the collapse in short-end German yields. We expect EUR/USD to trade lower over the next 1-3M on relative rates, political uncertainty and the announcement of US tax plans. Technically, short-term momentum indicators are bearish, which suggest that we should see a push lower towards 1.0350-1.0400 in coming weeks.

In the Scandies, EUR/NOK fell towards the 8.80 level yesterday on a sharp move higher in oil prices. Importantly, EUR/NOK broke below the important technical level of 8.83-8.84 from the beginning of February, which may have opened up for further downside. While valuation still supports a lower EUR/NOK in our view, we see limited further downside from the current level in the short term and forecast the pair at 8.80 in 3M. We do not expect the LFS unemployment figures published today to affect the NOK. EUR/DKK traded close to the 7.4330 level yesterday, where the market is likely to expect Danmarks Nationalbank (DN) to step in and buy EUR/DKK

in FX intervention. We look for DN to cap EUR/DKK downside around the current level using FX intervention and thus see limited downside from the present level.

In emerging markets, sentiment has turned supportive for the RUB, in particular on the back of the rise in oil prices yesterday, while the Ministry of Finance would be happy to intervene and to curb the rally, retaining conservatism in its fiscal policy. Another interesting sign of improving sentiment is the recent growth in placements in Russia. There were USD1.2bn in placements in Russia YTD (e.g. Detsky Mir, TMK, Phosagro, Rusal). This was the busiest placement season seen in Russia since 2011.

Key figures and events

Wednesday, February 22, 2017

				Period	Danske Bank	Consensus	Previous
8:00	NOK	Unemployment (LFS)	%	Dec	4.7%	4.7%	4.7%
10:00	DEM	IFO - business climate	Index	Feb	109.2	109.7	109.8
10:00	DEM	IFO - current assessment	Index	Feb	115.8	116.7	116.9
10:00	DEM	IFO - expectations	Index	Feb	102.5	103.2	103.2
10:00	ITL	HICP, final	m/m y/y	Jan	... 0.7%	... 0.7%	... 0.7%
10:00	SEK	Swedish Debt Office releases new funding forecast					
10:30	GBP	GDP, second estimate	q/q y/y	4th quarter	0.6% 2.2%	0.6% 2.2%	0.6% 2.2%
10:30	GBP	Index of services	m/m 3m/3m	Dec		0.2% 0.9%	0.3% 1.0%
11:00	EUR	HICP inflation	m/m y/y	Jan	... 1.8%	-0.8% 1.8%	0.5% 1.8%
11:00	EUR	HICP - core inflation, final	y/y	Jan	0.9%	0.9%	0.9%
14:30	CAD	Retail sales	m/m	Dec		0.2%	0.2%
16:00	USD	Existing home sales	m (m/m)	Jan		5.55	5.49 -2.8%
19:00	USD	Fed's Powell (voter, neutral) speaks					
20:00	USD	FOMC minutes from Feb. Meeting					

Source: Bloomberg, Danske Bank Markets

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Date of first publication

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